DEBT BURDENS AND PREDATORY LENDING

Mr. AKAKA. Mr. President, I rise today to focus on the challenges facing America's working families. Rising health care costs, increases in gasoline prices, and the lack of affordable housing have contributed to making the lives of working families more difficult as they strain to meet their day-to-day needs. The ability of these families to meet their increasing financial obligations is hampered by their significant debt burdens, particularly credit card debt, and by predatory lending practices such as refund anticipation loans.

Mr. President, too many families are becoming overwhelmed by their debts. In 2003, consumer debt increased for the first time to more than $2 trillion, and continued to increase in March, 2004, for the 12th straight month according to the Federal Reserve. A key component of household debt can be attributed to the use of credit cards. Revolving debt, mostly comprised of credit card debt, has more than doubled from $313 billion in January 1994 to $756 billion in March 2004. These debt burdens will increase as interest rates rise. Bankruptcy filings have surged to record levels. In 2003, more than 1.6 million consumers filed for bankruptcy, increasing by 2.8 percent in the 12 months ending on March 30, 2004. Many of these are middle class Americans who continue to work hard to make ends meet.

It is imperative that we make consumers more aware of the long-term effects of their financial decisions, particularly in managing their credit card debt. Obtaining credit has become easier. Students are offered credit cards at earlier ages, particularly since credit card companies have been successful with aggressive campaigns targeted towards college students. Universities and alumni associations across the country have entered into marketing agreements with credit card companies. For example, the University of Oklahoma will receive $13 million over 10 years in exchange for the exclusive ability to market credit cards to students, alumni, and employees, and to issue cards with the university's name. In this agreement, the school also receives 0.4 percent of every credit purchase. More than 1,000 universities and colleges have affinity cards which are made as attractive as possible through the opportunity to earn various benefits and discounts. College students make up a very ripe market for such credit and to boot are considered by some very good customers for lenders based on their payment patterns. Nina Prikazsky, Nellie Mae's Vice President of Operations, was quoted in the Chronicles of Higher Education as saying, ''Banks will take risks on young people the way they never would a decade ago, because they've discovered that students have become their best customers because they tend to make the minimum payments.'' Thus, college students, many already burdened with educational loans, are accumulating credit card debt. Forty-five percent of college students carry credit card debt, with the average debt over $3,000.

While it is relatively easy to obtain credit, especially on college campuses, not enough is being done to ensure that credit is properly managed. Currently, credit card statements fail to include all of the information necessary to allow individuals to make fully informed financial decisions. Mr. President, I recently introduced S. 2475, the Credit Card Minimum Payment Warning Act, along with Senators DURBIN, LEAHY, and SCHUMER. Our legislation will make it very clear what costs consumers incur if they make only the minimum payments on their credit cards. The personalized information consumers will receive for each of their credit card accounts will help them to make informed choices about the payments that they choose to make towards their balance.

The bill also requires that credit card companies provide useful information so that people can develop strategies to free themselves of credit card debt and have access to a toll-free number so that consumers can access trustworthy credit counselors. My bill represents sound legislation that aims to protect middle income and other families in this country.

Mr. President, the ability of families to survive financially is also hampered by predatory lending. Earned income tax credit, EITC, benefits intended for working families are increasingly being reduced by the growing use of refund anticipation loans, which typically carry triple digit interest rates. According to the Brookings Institution, an estimated $1.9 billion intended to assist low-income families was received by commercial tax preparers and affiliated national banks to pay for tax assistance, electronic filing of returns, and high-cost refund loans in 2002. The interest rates and fees charged on refund anticipation loans are not justified for the short length of time that these loans cover and the minimal risk they present. These loans do not carry much risk because of the Debt Indicator program. The Debt Indicator is a service provided by the Internal Revenue Service that informs the lender whether or not an applicant owes Federal or State taxes, child support, student loans, or other Government obligations, and this assists the tax preparer in ascertaining the applicant's ability to obtain their full refund so that the RAL is repaid. The Department of the Treasury should not be facilitating these predatory loans that allow tax preparers to reap outrageous profits that result from the exploitation of working families. More needs to be done to crack down on abusive refund anticipation loans and to provide additional opportunities for EITC families to access free tax preparation services. I appreciate the efforts of the Senate Finance Committee for incorporating several provisions of S. 685, the Low Income Taxpayer Protection Act, which Senator BINGAMAN and I introduced, into S. 882, the Tax Administration Good Government Act. One provision of special importance to me is an authorization for a grant program to link tax preparation services with the establishment of a bank or credit union account. Having a bank account allows individuals to receive their tax refund check faster than waiting for a paper check and without the need for using refund anticipation loans or check cashing services. It is important these provisions to provide additional consumer protections and expand opportunities of taxpayer assistance be enacted into law. We must work to provide alternatives to RALs and crack down on these exploitive loans.

Mr. President, unfortunately too many working families are susceptible to predatory lending because they are left out of the financial mainstream. Between 25 and 56 million adults are unbanked, or not using mainstream, insured financial institutions. The unbanked rely on alternative financial service providers to obtain cash from checks, pay bills, send remittances, utilize payday loans, and obtain credit. Many of the unbanked are low- and moderate-income families that can ill afford to have their earnings unnecessarily diminished by their reliance on these high-cost and often predatory financial services. In addition, the unbanked are unable to save securely to prepare for the loss of a job, a family illness, or a down payment on a first home or education expenses.

Mr. President, a Federal program, the First Accounts program, is intended to increase access for unbanked low- and moderate-income individuals to mainstream financial services. The program helps to offset the costs financial institutions incur in offering low-cost, electronic banking accounts. In addition, the program supports financial institution and nonprofit initiatives to provide financial education and counseling to low-income households. The First Accounts program has the potential for developing research into the financial services needs of low-income individuals and financial products designed to meet these needs. While the need is great, the President proposed in his fiscal year 2005 budget request to rescind the $4 million for the First Accounts program that had been previously appropriated in fiscal year 2002 and fiscal year 2003. I will continue to work with my colleagues to help preserve these funds for their intended purpose and bring people into the financial mainstream.

Mr. President, I look forward to continuing to work with my colleagues to help provide additional meaningful disclosure to consumers about their use of credit and expanding access to mainstream financial service opportunities. We owe it to our country's working families and their children.